STATEMENT OF BOARD PRESIDENT BETH HART AT HEARING

As most of you know, we are a new Board, elected last year. We assumed office in late November. Our duty to ratepayers is to oversee the District to insure that you have reliable safe drinking water and sanitary waste disposal. It wasn't until after we were in office for a couple of months with access to the internal workings of the District that we realized just how difficult it would be to fulfill our duty. You see this District has historically been a very well run organization and it was financially secure. Over a period of years, it had accumulated $6.5 million in cash reserves. We knew there were problems - that's why we ran for election - but we were dismayed to learn that most of the cash reserves had been spent and the financial condition of the District was so tenuous, that we couldn't borrow money from the public markets or even secure a line of credit at a bank to cover emergency expenses. In addition, we found spending in 2011 was estimated to exceed income by more than $400,000 and it appeared we would exhaust all cash sometime this fall. We had no choice but to act, act quickly and act decisively to restore the District's financial stability.

We started immediately to reduce costs:

- we eliminated health benefits for directors which cost the District approximately $122,000 in 2 years;
- we hired another attorney, as the District's prior attorney cost the District in excess of $470,000 in 3 years;
- we cut ~20% in employee expenses by not hiring a new GM. We instead consolidated the positions of operations and general manager. Right after we took office, Jerry Rolwing took responsibility for the manager's duties without a raise in pay. Recently, he was promoted to the position permanently, again without a raise in pay. The previous general manager's monthly salary, benefits, travel and conference expenses cost the District over $785,000 during his three years;
- we halted spending on virtually all capital improvement projects. There were some things we were committed to that could not be dropped. Those are now complete;

- we began working toward eliminating or reducing $7.5M in unfunded future cash obligations agreed to by the prior board just days before we took office;
- we sat down with staff and trimmed approximately $700,000 from last years budget so that going forward we are spending as lean as practical.

We couldn't have accomplished any of this without the support and help of Jerry Rolwing and the staff. The District is blessed with a hardworking and dedicated staff both in the field and in the office. Most employees have worked for the District for a number of years and their professionalism and experience are the reason this District has been so solid in the past. Good employees save a company money by doing their jobs efficiently and safely. We have good employees and we believe they can successfully operate on a lean budget.

Most rate increase studies are based on past spending. When we began this process with Raftelis, spending from 2010 was used to create the first scenarios. But this Board wasn't in charge of spending in 2010 and we couldn't tell without researching it, how much were legitimate future costs.

So, we asked Raftelis to recalculate future spending using the new budget numbers we developed working with staff when we eliminated $700,000 in expenses from last years budget. That means the scenario you will see today is based on very lean - bare bones spending. There is significant potential risk in using such a lean budget as the basis for our future costs given the financial crisis in Sacramento and in Washington DC, and the significant rise in all consumer costs especially gas and energy. But we have added an inflation factor and believe that with the help of our employees we can make this work.

The big unknown is unexpected expenses from equipment failures, regulatory changes, unfunded state mandated requirements, or some kind of disaster that creates a financial emergency. Without cash to buy the parts and materials to make repairs or meet other obligations, cash we no longer have, there could be significant disruptions in our ability to provide water or sewer services. We are working to prevent a catastrophic failure within our system by including in this budget a 5 year capital improvement program designed to improve and update the components of the water and sewer infrastructure. This budget also begins to rebuild our cash reserves, cash that is on hand so we can act quickly to restore and maintain services.

Even so, none of us can predict when the next flood, earthquake or fire is going to reduce or eliminate our ability to send water to your tap. The increases proposed will in time create a financial cushion to cover such costs, but for the next few years, this District and this community are very vulnerable.

Our decisions to date have been based upon a worst case scenario, meaning a reduction or loss of income from Montesoro and a continued loss of income from the property taxes they pay. I know that many of you have read that Montesoro has sold and are wondering why we would need the increases if that's true. As you will see in the presentation, the first 30% increase is mandatory to improve cash flow and build up minimal reserves to begin the road toward restoring creditworthiness.

The increases in following years may be adjusted downward if Montesoro completes its sales and restores its operation so that our income levels match what they have done in the past. But these are new owners. We don't know how they will operate or what income we are likely to receive. Until there is a stable revenue pattern upon which to make decisions, we must continue to plan using a worst case scenario. It would unwise and irresponsible for us to put the District in jeopardy by doing anything else. We have planned for the worst, but we hope for the best.